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A National Perspective

Credit Union 2017 Budget Summary

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The 2017 federal budget is perhaps most remarkable for what it does not say. For example, the budget does not advance any proposals in relation to postal banking, an idea floated early in the Liberal government mandate and which CCUA put considerable effort into challenging. Similarly, as discussed below, the budget does not propose any major new changes to tax policy despite considerable speculation to that effect in the lead up to the budget.

With that in mind, our budget summary focuses on issues that might have some direct or indirect bearing on credit unions, with particular emphasis on budget measures related to financial institutions, tax expenditures, efforts to reduce tax evasion, the Canada learning bond, and the Canada Infrastructure Bank.

FINANCIAL INSTITUTIONS

- **Data Gathering Initiative:** The budget proposes to provide Statistics Canada with $39.9 million over five years – and $6.6 million per year thereafter – to collect housing related data from financial institutions under the auspices of what it calls a "National Statistics Framework." Under the Statistics Canada Act, the agency has the power to compel these data from Canadians, including Canadian legal entities. The budget also proposes allocating $241 million over 11 years to Canada Mortgage and Housing Corporation (CMHC) to improve data collection, analytics and expand housing research.
    - *Credit Union Implications*: These measures will likely lead to increased data reporting requirements for credit unions. They also underline the federal government's ongoing concern about the state of Canada's housing market.

- **FinTech Collaboration:** Under the budget's "innovation" theme, the federal government says it is "committed" to working with the provinces to better co-ordinate and share information around regulating financial innovation or "FinTech" firms. The budget notes that FinTech companies, "along with Canadian banks, insurers and *credit unions* (emphasis added) are innovating to make financial services more accessible, more useful, and more affordable." The federal government also signalled its "commitment" to work with stakeholders on thinking through the implications of FinTech on the federal government's 2019 legislative review process.
    - *Credit Union Implications:* The budget discussion on "FinTech" underlines a point that CCUA has emphasized in the past, namely that addressing the "FinTech" issue has been a major motivation for the extend legislative review to 2019,

instead of its scheduled 2017 timeframe (as announced in Budget 2016). The Department's emphasis on collaborating with the provinces is aligned with CCUA's advocacy, which has stressed that the federal government should work closely with provincial counterparts on policy development given that many "FinTech" activities are more properly regulated at the sub-national level.

- **Retail Payments Consultation**: The budget says the federal government intends to release a consultation paper on a new retail payments oversight framework sometime in 2017. The consultation process will feed into eventual legislative changes.
    - *Credit Union Implications:* For credit unions, this consultation could have an impact on the payments landscape, allowing new entrants into a payments space traditionally limited to large banks and credit unions.

- **Changes to Deposit Insurance Legislation:** The budget says the federal government will introduce legislative changes that build off a consultation completed in late fall 2016 around its deposit insurance framework.
    - *Credit Union Implications:* While these legislative changes will have a direct bearing on federal credit unions, the fall 2016 consultation paper suggests they are unlikely to have much impact on the competitive balance between federal and provincial entities. For the most part, the fall consultation focused on modernizing the federal insurance framework. It did **not** propose a coverage increase.

- **Recovery and Resolution Framework:** The budget signals the federal government's intention, first announced several years ago, to continue rolling out elements of its recovery and resolution framework and, in particular, the "bail-in" regime targeted at the largest banks. The budget proposes to make legislative changes on the bail-in regime that would explicitly designate the Canada Deposit Insurance Corporation (CDIC) as its resolution authority, clarify the treatment of so-called "eligible financial contracts" such as derivatives in a bank resolution process, and reinforce the powers of the Office of the Superintendent of Financial Institutions (OSFI) to require the large banks to maintain sufficient capital to absorb losses in resolution.
    - *Credit Union Implications:* The bail-in regime is aimed at the largest banks and is therefore not directly relevant to credit unions. CCUA and others have long flagged a concern that the bail-in framework seems to preclude the possibility of exposing depositors to losses in the event of a large bank insolvency. It will continue to monitor this issue on behalf of the credit union system, reporting back on the proposed legislative changes as well as anticipated regulatory measures.

- **Financial Market Infrastructure:** The federal budget signalled the federal government's intention to strengthen the Bank of Canada's powers over "financial market infrastructure (FMI)" – essentially clearing and settlement systems like the large-value transfer system (LVTS). The proposed changes will, according to the budget, "enhance the bank's ability to identify and respond to risks to FMIs in a proactive and timely manner."

- *Credit Union Implications*: While it is unclear what precise impact these enhanced powers will have on the credit union system's interactions with the financial market infrastructure, they do underline an ongoing effort by the federal government to ensure the integrity of Canada's FMI.

TAX EXPENDITURES
From a tax policy perspective, the most notable part of the budget, at least insofar as credit unions are concerned, is what it ***does not*** propose.

In the lead up to the federal budget, provincial politicians in Ontario had called on the federal government to consider taxation measures that could help control housing price appreciation in the greater Toronto area. Meanwhile, several media reports suggested that the federal government was considering adjusting its capital gains regime, raising for example the capital gains inclusion rate to 75 per cent from the current 50 per cent. The budget **does not propose any *changes*** to the federal government's policy around the capital gains inclusion rate or the principal residence tax exemption, another area where pundits had speculated the federal government might take action.

That said, the budget does propose several measures that will "crack down" on tax evasion and combat tax avoidance, while streamlining the tax system. While not directly relevant to credit unions, these measures could affect some members. They include for example:

- **More Investment in Anti-Tax Avoidance:** The budget proposes to invest more than $500 million over five years to fund new Canada Revenue Agency (CRA) initiatives and extend existing CRA efforts such as verification activities, hiring more auditors and underground economy specialists, and developing business intelligence infrastructure to conduct better risk assessments;

- **Eliminating Tax Loopholes:** The budget proposes the elimination of several specialized tax loopholes and tax planning schemes, while signalling that it will continuing to study these tax strategies for future action; and

- **International Tax Evasion:** The budget proposes measures to combat international tax evasion by, for example, tightening rules around profit shifting to lower-tax jurisdictions.

Finally, the budget also signals the government's intention to release a consultation paper on certain tax planning strategies used by high-income earners, including so-called "income sprinkling", holding passive investment portfolios inside private corporations and converting private corporate income into capital gains.

MONEY LAUNDERING, TERRORIST FINANCING, TAX EVASION AND TAX AVOIDANCE
The budget says the federal government will work with provinces to develop a national strategy around strengthening the transparency of legal persons and legal arrangements

and improve the availability of beneficial ownership information. The underlying policy concern is that corporate structures can be used to avoid or evade taxes, and channel illegal or terrorist funds. Having good information on ownership can minimize these risks.

Credit unions have long expressed concern about the challenges related to collecting the kind of beneficial ownership information required by the Financial Transactions and Reports Analysis Centre (FINTRAC).

CANADA LEARNING BONDS

Budget 2017 is proposing to re-allocate $12.5 million over six years, starting in 2017–18, from Employment and Social Development Canada's existing resources that focused on raising awareness and improving access for the Canada Learning Bond (CLB) to launch a pilot project that will engage community organizations and businesses to explore new ways to increase awareness of the CLB and specifically, how to reduce barriers to access.

CCUA has recently met with officials at the Innovation Hub at the Privy Council Office to position credit unions as partners in raising awareness of the CLB and promoting uptake. We will continue to advance this opportunity.

INFRASTRUCTURE BANK

The budget indicates that the federal government will soon be proposing legislation to create the Canada Infrastructure Bank, which will be expected to invest more at least $35 billion over 11 years using loans, loan guarantees and equity investments. While the infrastructure bank is unlikely to pose a competitive threat to credit unions – or offer much in the way of opportunities for partnerships given the nature of credit union operations – there is always the possibility that the bank's mandate could shift over time. CCUA will monitor these development and report back on any changes that developments on the credit union sector.